California Financial Services Market Analysis Andersen Consulting

October 11, 1991
Prepared by INPUT
Mountain View, California

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Presentation Overview

- Methodology
- Sample/Industry Demographics
- Objectives and Scope
- Market Sizing
- Competitive Analysis
- Opportunity Analysis
- Conclusions/Observations

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Objectives

- Estimate market size for financial market segments
- Provide a forecast of growth by segment
- Analyze competition—based on buyer perceptions
- Identify opportunities for market offerings

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Scope

Parameter	*Description of Scope*
Geography	State of California
Industry Segments	Banking and Finance, Insurance
Offerings	Turnkey Systems, SI, SO, Professional Services*

*Segmented into Consulting, Systems Dev., Training & Ed.

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Project Approach

- Intelligence gathering—with Andersen
  - Identification of interview set
  - Review of interview design
- Projection of adjusted California market, financial services

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Project Approach

- User interviews
  - Qualify market sizes and growth
  - Gather competitive information
  - Assess future need
- Tabulation and analysis

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Interview Set

- 45 high-priority clients in Northern and Southern California
- Identified by Andersen

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Forecast Methodology Data Sources

- INPUT 1990-1995 U.S. market forecast
  - By vertical industry
  - By delivery mode (service class)
- Commerce department industry data

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Forecast Methodology Data Sources

- Computer Intelligence (CI) data base
  - Sites within market area
  - Employment by industry (CA, nationwide)

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Forecast Methodology Process

- Calculated per employee forecast by industry for U.S.
  - By vertical industry
  - By delivery mode
- Calculated California forecast based on CI and other data

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Forecast Methodology Process

- Adjusted market sizes and growth rates utilizing
  - Compute intensity factors
  - Survey results
  - Other INPUT proprietary research

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Demographics

Total interviews conducted	42
Total number of firms in sample	35
Respondent characteristics	85% CIO/MIS 15% OPS Execs
Geographic split	45% N. CA 55% S. CA

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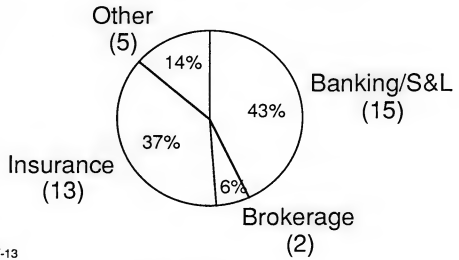
Interview Sample

Class of Firm



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Interview Sample

Buying Characteristics

Percent of outside purchases within California	92%
Percent of IS budget solely with MIS	70%
Percent of IS budget shared with users	20%
Percent of IS budget solely with users	10%

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Industry Demographics
Banking, Finance, Insurance

Industry/Geography		*# Firms*	*# Emp*
Banking/Finance—	N. CA	225	40K
	S. CA	435	85K
Insurance—	N. CA	254	25K
	S. CA	351	55K
Totals		1,265	205K

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Survey Sample

Market Sizing

For the Industry

- Over 1/2 the sample indicated increases for all categories (Turnkey, SI, Consulting, Development and E&T)
- Less than 1/5 indicated a decrease

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Survey Sample

Market Sizing

For the Industry

- Strongest increases in Consulting and Education and Training
- Strongest decrease in outside systems development services

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Survey Sample

Market Sizing

For the Firm

- Suggests lower than industry growth rates for:
  - Systems Integration
  - Consulting Services
  - Systems Development

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Survey Sample

Market Sizing

For the Firm

- Suggests slightly higher than industry growth rates for:
  - Turnkey Systems
  - Education and Training

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Market Sizing

Northern & Southern California

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Sizing Parameters

- Sizes and growth rates for:
  - Systems Integration
  - Turnkey Systems
  - Systems Operations
- Include only the professional services component

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Sizing Parameters

- Professional Services category includes:
  - Consulting Services
  - Systems Development Services
  - Education and Training
- All forecasts are for user expenditures

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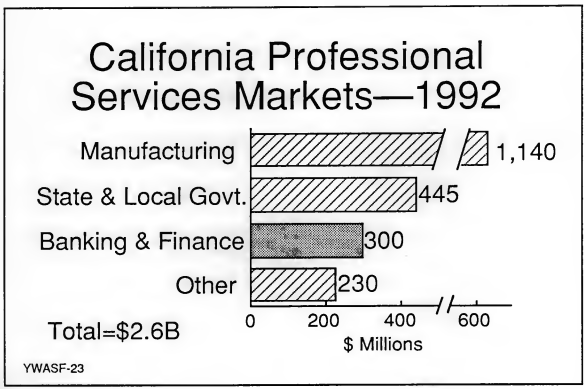

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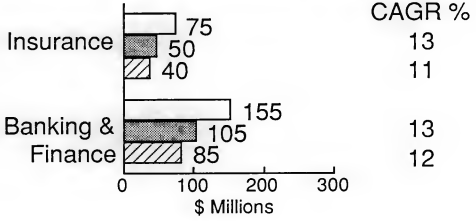
Market Sizes and Growth

Geographic Split—N. CA



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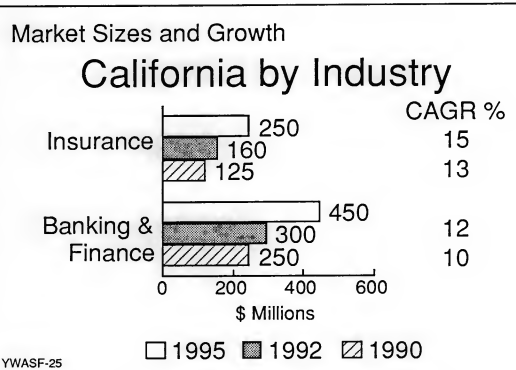
Market Sizes and Growth



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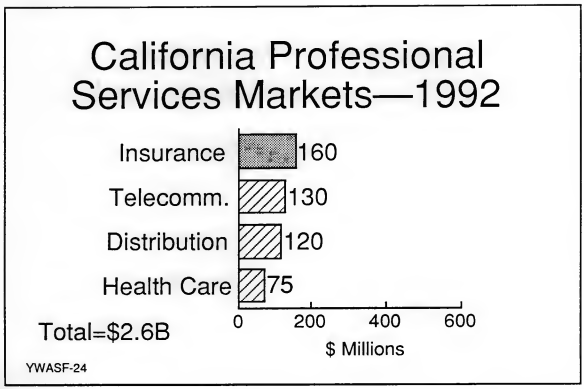

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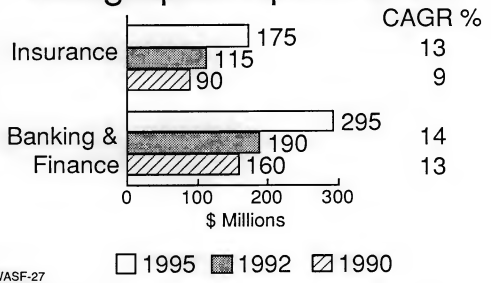
Market Sizes and Growth

Geographic Split—S. CA



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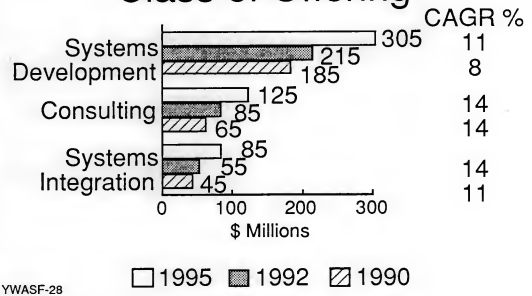
Market Sizes and Growth

Class of Offering



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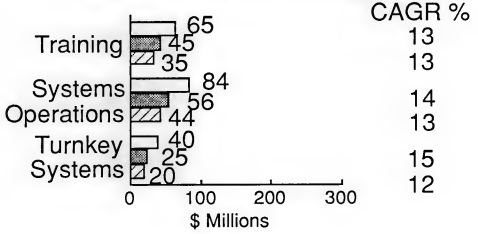
Market Sizes and Growth

Class of Offering



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Market Sizes and Growth

Observations

- Both Insurance and Banking and Finance have healthy long-term growth rates.
- Consulting and education and training are bright spots.

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Market Sizes and Growth

Observations

- Mergers and acquisitions will offer opportunities.
- Systems development growth is ***lower*** than national averages.

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Market Sizes and Growth

Observations

- Real growth 1990-1991 (CA—all industries) less than anticipated (7%) compared to INPUT's 1990 forecast of 13%.
- User data indicates slower growth 1991-1992. Better growth for 1992-1995 (CA—all industries).

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Market Sizes and Growth

Observations

- Growth in turnkey systems professional services is higher for financial services in CA than nationwide.
- Growth in SI considerably ***lower*** than national averages—14% vs. 22% (U.S.—all industries).

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Competitive Analysis

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Leading Vendors by Service Category

Category	*Leader/Other*
Turnkey Systems	**NONE** -EDS, Systematics, CA
Systems Integration	**EDS** -Andersen, IBM
Consulting Services	**Andersen** -No clear second tier

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Leading Vendors by Service Category

Category	*Leader/Other*
Systems Development	**Independents/Body Shops** -GE, IBM, Andersen
Education/Training	**NONE** -IBM, On-Line, Deltak

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Most Frequently Mentioned

- Andersen Consulting (24)
- IBM (14)
- EDS (11)
- Systematics (7)
- Deloitte & Touche (5)

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Selection Criteria

Category	*Primary/Secondary*
Turnkey Systems	Industry Expertise/Price
Systems Integration	Technical Expertise/ Industry Expertise

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Selection Criteria

Category	*Primary/Secondary*
Consulting Services	Industry Expertise/ Reputation
Systems Development	Technical Expertise/Price
Education/Training	Reputation/Price

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Observations—Competition

- No real "household" names except Andersen and IBM
- General lack of recognition of industry leaders
- Systems development in hands of independents, body shops. More so in CA than nationwide.

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Observations—Competition

- Price secondary but key in commodity services
- Industry expertise critical in value-added services

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Opportunity Analysis

High Respondent Interest

- Developing new applications
- Developing architectural plans
- Downsizing of existing systems
- Integrating or upgrading networks

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Opportunity Analysis

Medium Respondent Interest

- Integrating systems as a result of merger
- Integrating existing applications
- Migrating to new data base environments

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Opportunity Analysis

Medium Respondent Interest

- Developing systems plans
- Migrating to new operating systems

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Opportunity Analysis

Low Respondent Interest

- Converting systems as a result of a merger
- Maintaining existing applications suites

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	U.S.
	14
	15
	29
	16
	14

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Comparison of CA to U.S. Growth Rates, 1990-1995

	CA - CAGR %	U.S.
Banking & Finance	12	14
Insurance	13	15
Systems Integration	14	26
Systems Operations	14	15
Professional Services	12	14
Turnkey Systems	15	7

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	Definition
	[illegible] packaged solutions, bundling hard[illegible]oftware and [illegible]tallation services
	[illegible] communications where the vendor [illegible]onsibility for the complete [illegible]plementation of a finished
	[illegible]ment of all or a [illegible]e information [illegible]n system
	Utilization of high-level consultants to develop IS strategy, plans, conceptual design etc
	Co[illegible] professional services to su[illegible] entation (Detail design, c[illegible]ment, etc.) [illegible] development,
	C[illegible] or delivery for users or IS st[illegible] in technologies, new systems, tech[illegible]logies, etc

INPUT DEFINITIONS

Service Class (Delivery Mode)	Definitions
Turnkey Systems	Off-the-shelf packaged solutions, bundling hardware/software and installation services
Systems Integration	One time contracts where the vendor assumes responsibility for the complete design and implementation of a finished system
Systems Operations	Operation and management of all or a significant part of the user's information system function under a long-term contract
Consulting Services	Utilization of high-level consultants to develop IS strategy, plans, conceptual design, etc.
Systems Development	Contracting for professional services to support implementation (Detail design, product management, code development, etc.)
Education & Training	Course design or delivery for users or IS staff on such topics as new systems, technologies, etc.

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